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In-Plan Roth Rollovers - New Guidance and 2010 Forms 1099-R and 8606 Reporting Instructions

On November 26, 2010, the IRS issued [Notice 2010-84](#), containing guidance for [401\(k\)](#) and [403\(b\)](#) plans about in-plan Roth rollovers - a feature that permits plan participants to roll over eligible rollover distributions (ERDs) made after September 27, 2010, from a non-Roth account into a [designated Roth account](#) in the same plan. A non-Roth account means any plan account that does not hold designated Roth contributions.

Eligible Participants

- Besides plan participants, surviving spouse beneficiaries and alternate payees who are current or former spouses are also eligible to do an in-plan Roth rollover.

Types of In-plan Roth Rollovers

- In-plan Roth direct rollover - when the plan trustee transfers an eligible rollover distribution from a participant's non-Roth account to the participant's designated Roth account in the same plan.
- In-plan Roth 60-day rollover - when the participant deposits an eligible rollover distribution within 60 days of receiving it from a non-Roth account into a designated Roth account in the same plan.

Plan Amendments

- 401(k) and 403(b) plans have extended deadlines to amend to allow 2010 in-plan Roth rollovers if the amendment's effective date is the date the plan first operated in accordance with that amendment.
 - 401(k) plans have until the later of the last day of the year in which the amendment is effective or December 31, 2011.
 - Safe harbor 401(k) plans have until the later of the day before the first day of the plan year in which the safe harbor plan provisions are effective or December 31, 2011.
 - 403(b) plans have until the later of the plan's remedial amendment period (described in [Announcement 2009-89](#)) or the last day of the first plan year in which the amendment is effective.
- A §457(b) government plan may adopt an amendment to include a designated Roth account after December 31, 2010, and then allow in-plan Roth rollovers.

Eligible Rollover Distributions

- Participants may only roll over eligible rollover distributions from a non-Roth account to a designated Roth account in the same plan.
- A plan can be amended to allow new in-service distributions from the plan's non-Roth accounts conditioned on the participant rolling over the distribution in an in-plan Roth direct rollover. However, the plan cannot impose this condition on any existing distribution options available under the plan.

In-Plan Roth Rollover Account

- A plan may have to hold in-plan Roth rollovers for a participant in a separate account maintained solely for these rolled over amounts.

In-Plan Roth Rollovers Not Treated as a Distribution

- A distribution rolled over as an in-plan Roth direct rollover is not treated as a distribution for the following purposes:
 - Transferring a plan loan to the designated Roth account without changing its repayment schedule;
 - Requiring spousal consent;

- Requiring a participant's consent before an immediate distribution of an accrued benefit of more than \$5,000; and
- Eliminating a participant's right to optional forms of benefit.

Written Explanation (402(f) Notice)

If a plan offers in-plan Roth rollovers, it must include a description of this feature in the written explanation (402(f) Notice) the plan provides to participants who receive an eligible rollover distribution. Notice 2010-84 describes how a plan that uses the [safe harbor explanations](#) can revise them if it offers an in-plan Roth rollover option to participants.

Taxability and Withholding

- In-plan Roth rollovers are not subject to the 10% additional tax on early distributions under Code §72(t) and an in-plan Roth direct rollover is not subject to the mandatory 20% withholding under Code §3405(c). An individual who makes an in-plan Roth direct rollover may have to increase his or her federal income tax withholding or make [estimated tax](#) payments to avoid an underpayment of tax penalty.
- A special recapture rule applies when a plan distributes any part of the in-plan Roth rollover within a 5-taxable-year period, making the distribution subject to the 10% additional tax on early distributions under Code §72(t) unless an [exception](#) to this tax applies or the distribution is allocable to any nontaxable portion of the in-plan Roth rollover. The 5-taxable-year period begins January 1 of the year of the in-plan Roth rollover and ends on the last day of the fifth year of that period. This special recapture rule does not apply when the participant rolls over the distribution to another designated Roth account or to his or her Roth IRA but does apply to a subsequent distribution from the rolled over account or IRA within the 5-taxable-year period.
- Notice 2010-84 prescribes an ordering rule and an example involving a distribution from a participant's designated Roth account to which the participant had made an in-plan Roth rollover.

Special Rules for 2010 In-Plan Roth Rollovers

- The participant generally reports the taxable amount (fair market value of the distribution minus the employee's basis in the distribution) of an in-plan Roth rollover in the taxable year in which he or she receives the distribution. However, for in-plan Roth rollovers done in 2010, the participant:
 - reports half of the taxable amount in 2011 and the other half in 2012 (2-year income spread), or
 - elects to report the entire taxable amount in 2010.

If a participant elects to include the taxable amount in 2010, this election applies to all of his or her in-plan Roth rollovers in 2010 and he or she may not revoke the election after the due date (including extensions) of his or her 2010 tax return.

- In order for a participant to be eligible for the 2-year income spread, the distribution to be rolled over in an in-plan Roth rollover has to be made no later than December 31, 2010, and the plan must have a designated Roth account in place at the time the distribution is rolled over.
- Special income acceleration rules apply if the participant later receives a distribution of any amount of the taxable portion of the in-plan Roth rollover in 2010 or 2011 that wouldn't have been included in gross income until 2011 and 2012. Under these rules, the participant must increase gross income in the year of distribution by the amount of the distribution that the participant could have deferred to 2012. Notice 2010-84 has an example where a participant receives a distribution allocable to the taxable portion of an in-plan Roth rollover where such taxable portion has not yet been included in the participant's gross income.

No Recharacterization Rights

- Unlike a conversion or rollover to a Roth IRA, a participant may not recharacterize any amount of an in-plan Roth rollover.

Loans

- If an outstanding loan is part of an in-plan Roth rollover, the taxable amount of the rollover is the balance of the loan.

Reporting 2010 In-plan Roth Rollovers

Form 1099-R Reporting

- Report 401(k) and 403(b) in-plan Roth direct rollovers on [Form 1099-R](#), *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*:
- Include the amount rolled over in box 1 (Gross distribution)
- Include the taxable amount rolled over in box 2a (Taxable amount)
- Don't check box 2b (Taxable amount not determined)
- Report the basis in the amount rolled over in box 5 (Employee contributions)
- Use distribution code "G" in box 7

Plans are not required to withhold 20% for an in-plan Roth direct rollover. The 10% additional tax on early distributions under Code [§72\(t\)](#) does not apply to any amount of an in-plan Roth rollover.

Plans must report any distributions made in 2010 from designated Roth accounts allocable to an in-plan Roth rollover on a separate Form 1099-R. Report the distribution as you would any other distribution from a designated Roth account (see [Form 1099-R instructions](#)). However, in the blank box to the left of box 10, enter the amount of the distribution allocable to the in-plan Roth rollover.

For additional information, please see the [Changes to Current Tax Forms, Instructions, and Publications](#) Web page.

Plan Participants - Form 8606 Reporting

Plan participants who make an in-plan Roth rollover in 2010 must:

- File Form 8606, *Nondeductible IRAs*, with their 2010 tax return
- Complete Form 8606, Part III, to report their in-plan Roth rollover
- Complete certain lines of Form 8606, Part IV, if they receive a distribution in 2010 of any amount of their in-plan Roth rollover
- Complete Form 8606, Part II, to report any amount converted from a non-Roth IRA to a Roth IRA in 2010
- File and complete a separate Form 8606, Part III, if they also rolled over amounts from a qualified retirement plan to a Roth IRA in 2010

View the proposed revisions to the 2010 Form 8606 on our [Draft Tax Forms](#) Web page.

Rollovers as Business Start-Ups Compliance Project

What is a ROBS?

ROBS is an arrangement in which prospective business owners use their retirement funds to pay for new business start-up costs. ROBS plans, while not considered an abusive tax avoidance transaction, are questionable because they may solely benefit one individual – the individual who rolls over his or her existing retirement funds to the ROBS plan in a tax-free transaction. The ROBS plan then uses the rollover assets to purchase the stock of the new business.

Promoters aggressively market ROBS arrangements to prospective business owners. In many cases, the company will apply to IRS for a [favorable determination letter](#) (DL) as a way to assure their clients that IRS approves the ROBS arrangement. The IRS issues a DL based on the plan's terms meeting Internal Revenue Code requirements. DLs do not give plan sponsors protection from incorrectly applying the plan's terms or from operating the plan in a discriminatory manner. When a plan sponsor administers a plan in a way that results in prohibited discrimination or engages in prohibited transactions, it can result in plan disqualification and adverse tax consequences to the plan's sponsor and its participants.

Employee Plans ROBS Project

EP initiated a ROBS project last year to:

- Define traits of compliant versus noncompliant ROBS plans;
- Identify ROBS plans that are noncompliant and take action to correct them; and
- Use results to design compliance strategies focusing on identified issues and trends (for example, Employee Plans Compliance Resolution System, Fix-It Guides, Web-based information, newsletters, and speeches).

Using compliance checks, we initially focused on companies that sponsored a plan and received a DL but didn't file a [Form 5500](#), *Annual Return/Report of Employee Benefit Plan*, or [Form 5500-EZ](#), *Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan*, and/or Form 1120, *U.S. Corporation Income Tax Return*.

Our contact letter to plan sponsors asked questions about the ROBS plan's recordkeeping and information reporting requirements, including:

- the plan's current status
- plan contribution history
- information on the rollover or direct transfer of the assets into the ROBS plan
- participant information
- stock valuation and stock purchases
- general information about the business itself
- why no Form 5500 or 5500-EZ and/or Form 1120 were filed

We always invite a plan sponsor to furnish any other documents or materials that they believe will be helpful for us to review as part of the compliance check.

ROBS Project Findings

New Business Failures

Preliminary results from the ROBS Project indicate that, although there were a few success stories, most ROBS businesses either failed or were on the road to failure with high rates of bankruptcy (business and personal), liens (business and personal), and corporate dissolutions by individual Secretaries of State. Some of the individuals who started ROBS plans lost not only the retirement assets they accumulated over many years, but also their dream of owning a business. As a result, much of the retirement savings invested in their unsuccessful ROBS plan was depleted or 'lost,' in many cases even before they had begun to offer their product or service to the public.

Not Filing Form 5500 or Form 1120

Many ROBS sponsors did not understand that a qualified plan is a separate entity with its own set of requirements. Promoters incorrectly advised some sponsors they did not have an annual filing requirement because of a special exception in the Form 5500-EZ instructions. The exception applies when plan assets are less than a specified dollar amount and the plan covers only an individual, or an individual and his or her spouse, who wholly own a trade or business, whether incorporated or unincorporated. In a ROBS arrangement, however, the **plan**, through its company stock investments, rather than the individual, owns the trade or business. Therefore, this filing exception does not apply to a ROBS plan and the annual Form 5500 or 5500-EZ (5500-SF for filing electronically) is still required.

Specific Problems with ROBS

Some other areas the ROBS plan could run into trouble:

- After the ROBS plan sponsor purchases the new company's employer stock with the rollover funds, the sponsor amends the plan to prevent other participants from purchasing stock.
- If the sponsor amends the plan to prevent other employees from participating after the DL is issued, this may violate the Code qualification requirements. These types of amendments tend to result in problems with coverage, discrimination and potentially result in violations of benefits, rights and features requirements.
- Promoter fees
- Valuation of assets
- Failure to issue a [Form 1099-R](#), *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, when the assets are rolled over into the ROBS plan

If You Have Questions

[E-mail](#) us and we will answer your questions about the Project and how it relates to your situation. Include the words "ROBS Project" in the subject line. Additionally, we encourage you to e-mail any comment for the ROBS Project or any other EPCU project, especially if these suggestions focus on areas of potential noncompliance.

Fixing Common Plan Mistakes: Help! I Missed the April 30 Deadline for Adopting My EGTRRA Plan!

Each issue of the RNE examines a common error that occurs in retirement plans and provides information on fixing the problem and lessening the probability of its recurrence.

The Issue

Retirement plan documents need to be revised when the law changes. Your retirement plan will remain qualified and provide tax benefits only if you update your plan document for law changes by the required deadline. The deadline is based on:

- Whether you have a pre-approved plan (purchased from a bank, insurance company or a similar provider) or an individually designed plan,
- your type of retirement plan, and
- the law's requirements.

If you use a pre-approved plan document for your 401(k), profit-sharing, money purchase or other defined contribution plan, it is likely you should have signed an updated version of your plan by April 30, 2010. Your provider should have sent you an amended plan document approved by the IRS as conforming to changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) for you to sign. Even if you signed an EGTRRA amendment to your old plan, you are still required to adopt an EGTRRA plan document.

The Problem

Generally, if you have a pre-approved defined contribution retirement plan document and you did not sign an EGTRRA plan document by April 30, 2010, your plan does not comply with the tax laws. This means that any employer contributions to the plan become taxable and distributions from the plan are not eligible for rollover to an IRA.

The Fix

If you are a plan sponsor who was required to but failed to sign an EGTRRA plan document by the April 30, 2010 deadline, you can restore the tax-qualified status of your plan by filing an application with the Voluntary Correction Program (VCP). You can use our [VCP Submission Kit](#) to help you. Your VCP application should contain [Appendix F](#) and [Appendix F, Schedule 2](#) (see [Revenue Procedure 2008-50](#)) in addition to the other items listed below.

When completing Schedule 2, Part 1, go to the “Other” box at the end of the list of law names. Check this box and type in the following failure description:

The changes required by the 2004 Cumulative List (Notice 2004-84, 2004-2 C.B. 1030) for an employer using a pre-approved defined contribution plan who failed to adopt the pre-approved plan by 4/30/2010, as required by Announcement 2008-23, 2008-1 C.B. 731.

Assuming that the failure to sign an EGTRRA plan document by April 30, 2010, is the only failure you are correcting, this will be the only entry that needs to be made in Part 1. If you want to correct other plan errors, you may need to follow additional procedures. The IRS has published [Fix-It Guides](#) to help you correct other common errors in your retirement plan.

In Part 3, you must provide a brief description of the changes in administrative procedures you have implemented or plan to implement that will prevent the failure from happening again. Do not leave this section blank. Examples of administrative procedural changes include:

- Implementing appropriate procedures when you receive notification of required plan amendments from the master or prototype (M&P) or volume submitter plan sponsor;
- Providing additional training for responsible employees; or
- Hiring a new third party provider to track the plan’s compliance with law changes.

Your complete VCP application should include:

- Completed Appendix F with Appendix F, Schedule 2
- Appendix E - *Acknowledgement Letter*
- Form 2848, *Power of Attorney*, or Form 8821, *Tax Information Authorization*, if applicable
- Your check made payable to United States Treasury
- Copy of your signed and dated EGTRRA plan document (or adoption agreement, if applicable)
- Copy of the IRS opinion or advisory letter for the EGTRRA pre-approved plan you have adopted
- Signed copy of the plan document that was in effect prior to the corrective (EGTRRA) plan restatement
- Copy of the IRS opinion or advisory letter for the plan in effect prior to your EGTRRA restatement

Making Sure It Doesn’t Happen Again

Pay close attention to communications you receive from the company that provided your retirement plan documents. These communications often contain important information about required changes to your plan document and the deadlines for making those changes. Required plan amendments should be timely signed and dated. Following these housekeeping procedures can help ensure that your retirement plan remains qualified.

Form 5500 Series - CP 213 Proposed Penalty Notice

If you believe you received a CP 213, Proposed Penalty Notice, in error, please respond to the notice within 30 days of receipt. In your response, be certain to submit:

1. A copy of the CP 213 Notice,
2. Any appropriate supporting documents, and
3. Evidence that the return was timely filed or a reasonable cause statement, **or**
4. Evidence that the return was corrected with an amended return.

Please send your responses to the following address:

Ogden Accounts Management Center
EP Accounts Unit, Mail Stop 6270
Ogden, UT 84201

We recommend you send your responses by certified mail or a traceable private delivery service.

For additional information, please review our [frequently asked questions on CP 213 Notices](#).

We're Glad You Asked! - Disability Distribution

Can our 401(k) plan distribute an employee's elective deferrals to him because of his wife's disability if the employee is younger than 59 ½? If yes, will the employee have to pay the 10% additional tax on this distribution?

Typically, a distributable event in a 401(k) plan includes an employee's disability, but not that of his or her spouse or dependents.

However, your 401(k) plan may allow a [hardship distribution](#) based on an immediate and heavy financial need of the employee or the employee's spouse, dependents or beneficiaries. The amount of the distribution can be no more than necessary to satisfy the financial need, but can include amounts needed to pay all taxes resulting from the distribution. Your plan's terms will define "immediate and heavy financial need," which may cover disability related medical expenses for the employee's spouse.

The [10% additional tax](#) on early distributions applies to hardship distributions unless the employee is over the age of 59 ½ or qualifies for another exception to this tax. For example, the employee may qualify for the medical expense exception. This [exception](#) means the employee does not have to pay the 10% additional tax on the amount of the distribution that are deductible medical expenses exceeding 7.5% of his adjusted gross income, regardless of whether the employee itemizes or not.

Annuities - A Brief Description

An annuity is a contract that requires regular payments for more than one full year to the person entitled to receive the payments (annuitant). You can buy an annuity contract alone or with the help of your employer.

Common Types of Annuities

Fixed period annuities - pay a fixed amount to an annuitant at regular intervals for a definite length of time.

Variable annuities - make payments to an annuitant varying in amount for a definite length of time or for life. The amounts paid may depend on variables such as profits earned by the pension or annuity funds or by cost-of-living indexes.

Single life annuities - pay a fixed amount at regular intervals during an annuitant's life, ending on his or her death.

Joint and survivor annuities - pay a fixed amount to the first annuitant at regular intervals for his or her life. After he or she dies, a second annuitant receives a fixed amount at regular intervals. This amount, paid for the life of the second annuitant, may be the same or different from the amount paid to the first annuitant.

Qualified employee annuities - a retirement annuity purchased by an employer for an employee under a plan that meets certain Internal Revenue Code requirements.

Tax-sheltered annuities - a special annuity plan or contract purchased for an employee of a public school or tax-exempt organization.

Additional Resources:

[Publication 575](#), *Pension and Annuity Income* – discusses the tax treatment and reporting of distributions from pension and annuity plans.

DOL News

The Department of Labor's Employee Benefits Security Administration (DOL/EBSA) announced new guidance as featured below. You can subscribe to [DOL/EBSA's](#) homepage for updates

Definition of "Fiduciary" of Employee Benefit Plans

On October 22, DOL/EBSA published a [proposed rule](#) to update the definition of "fiduciary" to more broadly define the term as a person who provides investment advice to plans for a fee or other compensation.

The proposed rule would amend a 1975 regulation that defines when a person providing investment advice becomes a fiduciary under ERISA. The proposed amendment would update that definition to take into account changes in the expectations of plan officials and participants who receive advice, as well as the practices of investment advice providers.

The proposal notes that the 1975 rule's approach to fiduciary status may inappropriately limit DOL/EBSA's ability to protect plans, participants and beneficiaries from conflicts of interest that may arise from today's diverse and complex fee practices in the retirement plan services market. The proposed rule is designed to remedy this limitation, and protect plan officials and participants, who expect unbiased advice, by giving a broader and clearer understanding of when individuals providing such advice are subject to ERISA's fiduciary standards.

Improving Transparency of Fees and Expenses to Workers with 401(k)-type Retirement Plans

On October 20, DOL/EBSA published a [final rule](#) to give the estimated 72 million participants covered by 401(k)-type retirement plans greater information regarding the fees and expenses associated with their plans in order to better manage their retirement savings.

Many 401(k)-type plans allow workers to make their own investment decisions. Current law does not require that all workers be given the information they need to make informed investment decisions or, when information is given, that it is furnished in a user-friendly format. This rule will ensure that all workers who direct their plan investments have access

to the information they need to make informed decisions regarding their retirement savings, including fee and expense information. Under the rule, workers will receive this information in a format that enables them to meaningfully compare the investment options under their plans.

The final regulation requires plan fiduciaries to:

- Give workers quarterly statements of plan fees and expenses deducted from their accounts.
- Give workers core information about investments available under their plan including the cost of these investments.
- Use standard methodologies when calculating and disclosing expense and return information to achieve uniformity across the spectrum of investments that exist in plans.
- Present the information in a format that makes it easier for workers to comparison shop among the plan's investment options.
- Give workers access to supplemental investment information in addition to the basic information required under the final rule.

The proposed rule includes a [model comparative chart](#).

Hearing on Specific Issues Related to Lifetime Income Options for Retirement Plans

On September 14 and 15, DOL/EBSA and the Department of the Treasury held a joint public hearing to hear testimony on several specific issues relating to lifetime income and other arrangements that provide a stream of income after retirement for workers in employer-sponsored retirement plans.

Witnesses addressed issues relating to:

- Certain specific participant concerns affecting the choice of lifetime income relative to other options;
- Information to help participants make choices on the management and spend down of retirement benefits;
- Disclosure of account balances as monthly income streams;
- The fiduciary safe harbor for selection of lifetime income issuers or products; and
- Alternative designs of in-plan and distribution lifetime income options.

[Written requests](#) to testify at the hearing and testimony are available on EBSA's website. The archive of the webcast of the hearing is available on this Web page.

DOL/EBSA and Treasury received approximately 780 public comments in response to the request for information (RFI) published in the February 2, 2010 *Federal Register*. The purpose of the hearing was to gather additional information on discrete technical issues and proposals raised in the RFI submissions.

Affordable Care Act

DOL/EBSA has a dedicated [Web page](#) for guidance and educational information as well as outreach events on the Affordable Care Act. You can subscribe to the Web page for notice of updates.

Free Compliance Assistance Events

For dates and locations of free compliance assistance events sponsored by EBSA for both retirement and health benefit plans, visit [EBSA's](#) homepage.

Employee Plans Recent Published Guidance

Regulations

[T.D. 9505, 75 Fed. Reg. 64123 \(October 19, 2010\)](#)

Final regulations provide guidance for hybrid defined benefit plans on changes made by the Pension Protection Act of 2006, as amended by the Worker, Retiree, and Employer Recovery Act of 2008. These final regulations incorporate most provisions of Notice 2007-6 and the 2007 proposed regulations.

[REG-132554-08, 75 Fed. Reg. 64197 \(October 19, 2010\)](#)

Proposed regulations to provide additional guidance: 1) for plans that compute accrued benefits by reference to a hypothetical account balance or equivalent amounts (under Code §411(a)(13)); and 2) regarding accrued benefit requirements for hybrid retirement plans (under Code §§411(b)(1) and (b)(5)).

Revenue Procedures

[Revenue Procedure 2010-26, 2010-30 I.R.B. 91](#)

Provides updated specifications for electronic filing of Forms 1098, 1099, 5498, and W-2G information returns with the IRS through the IRS Filing Information Returns Electronically (FIRE) system.

[Revenue Procedure 2010-48, 2010-50 I.R.B.](#)

Guidance on pre-approved IRAs and IRS's model IRAs, including information on optional amendments, procedures for applying for opinion letters and upcoming model IRAs.

Notices

[Notice 2010-84, 2010-51 I.R.B.](#)

Guidance on in-plan Roth rollovers for plan sponsors and participants.

Mark Your Calendar

Stay on top of your retirement plan's mandatory deadlines! Here are some important dates for your retirement plan. Please note that the following deadlines are for calendar-year plans (non-calendar-year plans must adjust these dates):

December 2:

- Provide required 2011 plan year notice to eligible employees for safe harbor 401(k) plans and plans containing an eligible automatic contribution arrangement.

December 31:

- Distribute 2009 401(k) excess contributions (including income or losses) without jeopardizing the plan's tax-qualified status.
- Revoke a single-employer defined benefit (DB) plan sponsor's previous election to use a funding balance to offset minimum required contributions for the 2010 plan year, to the extent the election exceeded the full minimum required contribution for the year (only for plans with valuation dates on the first day of the plan year).
- Elect to reduce January 1, 2010, funding balances to avoid or lift benefit restrictions under Code §436 for a single-employer DB plan.

January 15: Make the 2010 fourth quarter contributions for DB plans.

January 31:

- File [Form 945](#), *Annual Return of Withheld Federal Income Tax*; and issue [Form 1099-R](#), *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, to recipients of 2010 retirement plan distributions.
- Amend for [recent law changes](#) and submit the plan for a [determination letter](#), if desired, for an individually designed plan (not prototype or volume submitter) with an EIN ending in 0 or 5.

Visit the [Employee Plans Educational Events/Conferences](#) Web page for upcoming events.

Timing Is Everything - Year-End Check-up for IRA Owners

Whether you are still working or retired, you should review your IRAs at least once a year. Here are some things to think about before the end of the year.

Contributions

- **Limits**
If you're working, review the [2010 IRA contribution and deduction limits](#) to make sure you are taking full advantage of the opportunity to save for your retirement. Remember you can make 2010 IRA contributions until April 18, 2011.
- **Excess Contributions**
If you've exceeded the 2010 IRA contribution limit, you may withdraw excess contributions from your account by the due date of your tax return (including extensions). Otherwise, you must pay a 6% tax each year on the excess amounts left in your account.

Rollovers and Conversions to Roth IRAs

Beginning this year, you can roll over or convert amounts from your traditional IRA into a Roth IRA regardless of your income. Moving pre-tax money such as that typically held in traditional IRAs to a Roth IRA, which can only hold after-tax amounts, results in taxable income for the IRA owner. The default method for reporting rollovers or conversions to a Roth IRA in 2010 is reporting half of the [taxable amount](#) in your gross income in 2011 and half in 2012. However, you can elect to include the entire amount as gross income on your 2010 income tax return. You cannot change your election after the due date for your 2010 income tax return. For additional information, review our [Frequently Asked Questions Regarding IRAs](#).

Required Minimum Distributions (RMDs)

Even though you did not have to take [RMDs](#) from your IRAs in 2009, if you are age 70 ½ or older, you must take a 2010 RMD by December 31, 2010 (April 1, 2011, if you turned 70 ½ in 2010). You can calculate the amount of your RMDs from an IRA by using our [RMD Worksheets](#). An IRA owner must calculate the RMD separately for each IRA that he or she owns other than any Roth IRAs, but can withdraw the total amount from one or more of the non-Roth IRAs. Remember that you face a 50% excise tax on any amount of an RMD that you fail to take on time.